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A REVIEW OF
LIFE INSURANCE

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A REVIEW
OF
LIFE INSURANCE

FROM THE DATE OF THE

FIRST NATIONAL CONVENTION
OF INSURANCE OFFICIALS. . . .

1871-1897.

AN ADDRESS BY

JOHN A. McCALL, President

OF THE

NEW-YORK LIFE INSURANCE CO.

BEFORE THE

TWENTY-EIGHTH NATIONAL CONVENTION.

Milwaukee, Sept. 13-16, 1898.



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Review of Life Insurance

FROM THE DATE OF THE

FIRST NATIONAL CONVENTION
OF INSURANCE OFFICIALS. . .

I.—1871-1880.

PRELIMINARY.

AT the time of the meeting of the First Convention of Insurance Officials, in May, 1871, American Life Insurance had passed through two distinctive periods, and had nearly reached the end of a third. In the first period life insurance was done almost entirely by proprietary companies, organized primarily for the transaction of fire insurance, banking and trust business. Following this came the period of the early mutuals and other profit-sharing

companies, doing a life insurance business exclusively. The marked success of these organizations, between 1843 and 1862, caused a great multiplication of life companies. Life Insurance shared the fate of other industries of the time—flourished and grew with them—as later it suffered with them. From 1862 to 1870 the number of companies reporting to the New York Department increased from eighteen to seventy-one—the latter being the highest number ever reported. During the same period the insurance in force and the gross assets increased over ten-fold. In eight years over two hundred and thirty million dollars were added to assets, and over eighteen hundred millions to risks in force.

During this period State supervision in New York became full-fledged. It was begun in a mild form under the Revised Statutes of 1828, which required all moneyed corporations thereafter created to make annual reports to the State Comptroller. This provision was continued in the first general Insurance Act of April 10, 1849, and compliance with its requirements by foreign companies was made a

condition of their admission to the State. A deposit with the State for the protection of policy-holders was first required by the Act of April 8, 1851, and under this Act the Comptroller was given authority to make official examinations of companies. This Act also made the possession of a re-insurance fund a necessity, and required a company to be dissolved if its assets were not sufficient to re-insure its outstanding risks. The general Life and Health Insurance Law of 1853 required the companies to report a classified statement of all policies in force, together with the data necessary for an official valuation of policy liabilities. The Act of April 15, 1859, creating the Insurance Department, made no new requirement of the companies, but transferred to the Superintendent the authority over them formerly exercised by the Comptroller. A standard of solvency was first adopted by law in 1866, the English Life Table No. 3 for Males, with interest at five per cent., being chosen. In 1868 the standard was changed to the American Experience Table, with interest at four and one-half per cent. The first official

valuation of the policy liabilities of all companies doing business in the State was made as of December 31, 1869. The second annual valuation, made December 31, 1870, showed seventy-one solvent companies with \$2,000,-000,000 of insurance, \$269,000,000 in assets and \$48,000,000 in surplus. At this time six other States had adopted the New York standard, while four States stood with Massachusetts for the Actuaries' Table, with four per cent. interest; Iowa had anticipated the financial discussions of our day by adopting a double standard. Such was the condition of the companies and such the standards of solvency at the assembling of the First Convention of Insurance Officials in May, 1871.

THE CONVENTION.

What were the burning questions of the time may, perhaps, be best judged by noting those which most occupied the attention of the Convention. These were (1) a uniform blank for the use of companies in making their annual reports, and the acceptance by each Department, within the limits of existing law, of

the certificates of other Departments, as to valuations and assets of home companies; (2) uniform methods of valuation, including table of mortality and rate of interest; (3) uniform insurance laws, including uniform taxation of life companies; (4) the best method of dealing with insolvent companies.

The first of these subjects being within the purview of the Convention, a uniform blank was adopted and recommended to the various Departments. This form was so modified in 1875 that reports should present a perfect balance-sheet, and, with slight amendments, it has been continued until the present time. Upon other subjects named the Convention could only make recommendations. The report of the Committee on mortality table and interest rate was presented at the October session and fills over 90 printed pages, while the papers, addresses and letters on the subject occupy 150 pages more. All this was in addition to the extended discussions had during the sittings of the Convention. The American Table of Mortality, with four and one-half per cent. interest, was finally recom-

mended by a vote of 23 to 3.* Judging from the attention it received, this was considered the most important question before the Convention. The companies, as a whole, expressed no preference for any particular table of mortality or rate of interest ; but, in response to a request of the Convention to lay before it such matters as they deemed of importance to be considered, they urged uniformity in the forms of annual reports, the adoption of the same basis and system in valuations, the interchange of certificates of valuation and assets, the deposit of securities in one State only, the appointment of one agent or attorney only in each State for service of process, and uniformity in taxation.

A draft of a reciprocal insurance law was reported, discussed and finally recommended to the several States for adoption. A resolution to the effect that it was impolitic to tax life insurance premiums was lost by a vote of 13 to 8, and a resolution to the effect that the

* Mr. William E. Harvey, of Illinois, announced that he was under instructions to vote for the Actuaries' Table unless a unanimous vote could be obtained for some other standard. Report second session, pp. 216, 220.

tax on premiums should not exceed one and one-half per cent. was adopted by a vote of 13 to 10.* The Secretary of the Convention compiled a table showing the taxes imposed on Life Insurance by the various States and Territories in 1870, and, in order to ascertain whether the former times were better or worse in this respect than the present, I have had made up a table showing what taxes the New-York Life Insurance Company paid in 1897 in each State and Territory of the United States, and what it would have paid in each had the laws been the same as they were in 1870.

The table shows an increase in taxation by States having tax laws in 1871, of about three-fourths of one per cent. for the same amount of business. In twenty-two States taxes are higher than in 1871, and in seventeen States they are lower. The most striking feature of the table is its inequalities. In twenty-five States and Territories, where the Company had \$317,000,000 insurance in force in 1897, it paid \$23,000 in taxes; in twenty-four other States and Territories, where it had \$313,000,-

* Report second session, pp. 183-4.

000 insurance in force, it paid \$207,000 in taxes. The taxation of Life Insurance cannot be said to be founded on any recognized principles of equity or of political economy when in one-half of the Union it is taxed nine times as heavily as it is in the other half.

COMPARATIVE RESULTS OF TAX LAWS IN 1871 AND 1897 ON THE BUSINESS OF THE NEW-YORK LIFE INSURANCE COMPANY.

STATE OR TERRITORY.	Total amount paid in 1897, under laws then in force.	Amount which would have been paid in 1897 on basis of laws current in 1871.	Insurance in force Dec. 31, 1897.
Alabama	\$2,840.58	\$4,776.96	\$6,951,000
Arizona	991.23	-----	2,097,000
Arkansas	1,306.29	2,402.69	3,183,000
California	729.85	6,454.06	20,015,000
Colorado	5,231.89	5,088.64	7,727,000
Connecticut	306.00	5,920.06	8,471,000
Delaware	402.48	745.64	778,000
Dist. of Columbia	1,176.69	1,155.94	3,545,000
Florida	4,023.56	490.00	5,800,000
Georgia	7,370.61	6,281.61	14,609,000
Idaho	97.00	-----	3,002,000
Illinois	1,402.74	2,900.00	51,798,000
Indiana	10,588.58	262.50	14,538,000
Iowa	12,806.58	711.00	18,188,000
Kansas	256.67	4,598.52	7,099,000
Kentucky	14,210.20	16,289.33	18,770,000
Louisiana	3,715.10	7,130.96	16,508,000
Maine	289.44	103.00	3,957,000
Maryland	5,766.05	3,913.85	7,463,000
Massachusetts	16,593.84	8,300.72	26,563,000
Michigan	8,539.15	12,795.27	12,392,000
Minnesota	5,501.96	-----	10,238,000
Mississippi	1,552.00	2,082.50	8,292,000
Missouri	17,882.46	500.00	29,215,000
Montana	2,154.75	-----	4,862,000
Nebraska	133.19	111.19	7,272,000
Nevada	100.00	1,137.68	1,108,000
New Hampshire	607.68	487.68	1,888,000

COMPARATIVE RESULTS OF TAX LAWS—*Continued.*

STATE OR TERRITORY.	Total amount paid in 1897, under laws then in force.	Amount which would have been paid in 1897 on basis of laws current in 1871.	Insurance in force Dec. 31, 1897.
New Jersey.....	\$335.00	\$7,867.70	\$15,754,000
New Mexico	226.00	.....	3,064,000
New York .....	.....	8,675.00	123,413,000
North Carolina...	3,682.58	1,800.29	5,489,000
North Dakota....	1,310.06	.....	1,529,000
Ohio	23,920.81	19,519.84	28,367,000
Oklahoma.....	142.06	.....	1,136,000
Oregon	883.30	145.00	3,601,000
Pennsylvania.....	31,746.29	47,429.43	45,506,000
Rhode Island	2,752.06	2,861.06	4,171,000
South Carolina ..	5,092.04	205.00	6,537,000
South Dakota	1,873.62	.....	2,833,000
Tennessee	6,132.44	4,438.86	7,815,000
Texas	10,628.62	500.00	25,828,000
Utah	1,565.63	.....	3,456,000
Vermont	3,810.52	2.00	4,800,000
Virginia	3,839.37	7,679.76	9,075,000
Washington.....	1,813.31	.....	4,545,000
West Virginia....	2,057.41	1,838.71	3,234,000
Wisconsin	451.00	408.00	12,204,000
Wyoming	934.40	364.95	1,425,000
	\$229,773.09	\$198,376.00	\$630,111,000

The Committee on Winding Up Insolvent Companies reported a plan, which was laid upon the table until the next year. Speaking of this action Mr. Harvey, of Missouri, who was a member of the Committee, said in a paper read before the Convention of 1890:

“There was a unanimous conviction that the prospect at that time, under the existing

inflation of values, had a dangerous aspect, but where or how soon the wrecks were to begin no one dared predict; and yet no member, nor the committee to which was given the matter of devising the skeleton of a uniform insurance law for all the States, seemed to think it worth while to suggest immediate legislation, under which, if the storm did burst, some of the craft might be saved. In the law which was proposed at the fall session, a section looking to the possible recovery of an impaired company was incorporated; but subsequent events have shown that its application would have been a remedy to kill, not cure."*

The method incorporated in the proposed law differed but little from the method pursued with such disastrous results under the laws of New York in the years immediately following. The method proposed by the Committee had the merit of keeping an insolvent company together, applying the assets on hand to the purchase of paid-up insurance, and devoting all future premiums received to the purchase of new insurance at a rate adjusted to attained

* Official report, pp. 18, 19.

age. There was really no question before the Convention of such pressing importance as this, and the long debates over tables of mortality and rates of interest might well have been spared, if a just and workable measure for saving insolvent companies from the waste of receiverships could have been devised and urged upon the attention of legislators. The "unanimous conviction" of danger spoken of by Mr. Harvey, was well founded. The official valuations of December 31st, preceding, showed an impairment of the capital stock of twenty-nine companies by the New York standard, and of thirty-six companies by the Massachusetts rule. Superintendent Miller, of New York, who called the Convention and presided over its deliberations, had made numerous examinations of life companies in 1870, and as a result, two New York companies and two British companies had been obliged to cease doing business. The fate that befell policy-holders in these four organizations was typical of that which was in store for those of thirty-two of the thirty-six companies already referred to, as showing an impairment of capital

under the Massachusetts standard—one was wound up by a receiver who paid about 25 cents on the dollar, while the other three were re-insured in companies that either failed, or were, in turn, re-insured in other companies that failed.

Before considering the events of the period immediately following 1871, it may be well to glance at some features of the policy contract at this time. All policies contained numerous restrictions upon residence, travel, occupation, habits of life and manner of death, under which a policy might be canceled or become void. There was no incontestable clause. Ordinary Life policies issued prior to about 1868, and all policies issued prior to 1860, contained no non-forfeiture conditions. Dividends in most companies were declared annually, and were generally available in the reduction of annual premiums, or were added to the policies in the form of paid-up insurance. In 1868 the Equitable had begun the issue of a deferred dividend policy—which was forfeitable for non-payment of premium during its first dividend period, such period being fixed by the time required

for the annual premiums, compounded at ten per cent. per annum, to amount to the face of the policy. In 1870 the Mutual began the issue of policies which were forfeitable for non-payment of premium during the first dividend period of 10, 15 or 20 years. In 1871 the New-York Life began the issue of a 10-year dividend policy which was forfeitable for non-payment of premium during the first dividend period. These policies did not, however, contain the options in settlement—including cash surrender value—afterward incorporated in deferred dividend policies by these and other companies.

A PERIOD OF DISASTER.

The nine years immediately following the First Convention must be accounted the most trying period in the history of American Life Insurance. The number of companies which ceased doing business in New York was forty-six. Only four re-insured in companies that remained solvent; only ten others paid their liabilities in full. Receivers' reports are incomplete, but a careful examination of such as are

LOSSES IN NEW YORK COMPANIES.

NAME OF COMPANY.	Cash Liabilities.	Cash Dividends.	Loss to Policy-holders.
1. Continental	\$4,821,048	\$1,344,066	\$3,476,982
2. Globe	3,268,821	1,921,002	1,347,819
3. Guardian	1,727,282	376,089	1,351,193
4. Knickerbocker	3,065,708	685,344	2,380,364
5. North America	2,923,829	987,912	1,935,917
6. Security Life and Annuity	2,474,968	259,764	2,215,204
7. Universal.....	2,812,599	200,000	2,612,599
Twelve small companies.	3,835,642	1,815,804	2,019,838
TOTALS.....	\$24,929,897	\$7,589,981	\$17,339,916

1. Includes American Tontine, Farmers and Mechanics and Empire Mutual.
2. Includes Merchants' Life. Dividends include \$100,000 of net shortage of \$129,550 in Expenditures from incomplete receivers' reports.
3. Includes Amicable, Widows and Orphans Benefit and Mutual Protection (changed to Reserve Mutual), and New York State Life.
4. Cash Dividends include \$75,000 of \$109,873 on hand December 31, 1886, and not reported on.
5. Includes Standard and Government Security.
7. Liabilities include \$1,500,000 for loss in scaling policies in 1878. Receivers' reports incomplete; difference between receipts and disbursements, \$222,763; dividends estimated.

LOSSES IN OTHER-STATE COMPANIES.

NAME OF COMPANY.	Cash Liabilities.	Cash Dividends.	Loss to Policy-holders.
1. New Jersey Mutual, N. J.	\$1,006,185	\$41,024	\$965,161
2. Piedm't & Arlington, Va.	822,060	52,384	769,676
3. Republic, Ill.....	1,100,500	346,112	754,388
4. Charter Oak, Conn.....	8,491,387	553,472	7,937,915
5. Continental, Conn	1,752,050	297,848	1,454,202
6. Columbia, Mo	2,824,169	249,250	2,574,919
7. Life Association, Mo....	1,935,846	417,279	1,518,567
8. Am. Nat'l L. & T., Conn.	668,758	66,876	601,882
9. American, Pa	1,302,533	454,195	848,338
Seven small companies..	1,190,012	533,008	657,004
TOTALS.....	\$21,093,500	\$3,011,448	\$18,082,052

3. Includes Hahnemann, Ohio, and Economical R. I.
4. Liabilities include a loss of \$5,446,749 in scaling policies in 1877.
6. Includes St. Louis Mutual, Atlas and De Soto.
7. Includes Empire State Mutual, N. Y.

accessible show the total loss to policy-holders by failures among American life companies to be about thirty-five million dollars, nearly all of which occurred during this period.

The statutes applicable to winding up insolvent companies were entirely inadequate, and much expensive litigation was necessary to determine what the law really was. Meanwhile the waste and extravagance of receiverships went on until they became almost as great a scandal as the mismanagement of companies that had brought them into being. The situation was more acute in New York State than elsewhere because, of the forty-six companies which ceased doing new business, twenty-seven had their domicile in that State. Governor Robinson called attention to the subject in his annual message of 1878, and the delegates to this Convention at its meetings in 1877 and 1878 adopted resolutions deplored the evils of receiverships, and pledging themselves to make every effort to save companies from receivers' hands. The Legislature did but little to protect the interests of policy-holders, and the ill-timed denunciation of Life Insurance indulged

in by some of its members often failed to discriminate between well-, and ill-managed companies, and so added to public distrust. The insurance legislation of this period in New York, which was intended to be remedial, was: A law (in 1873) limiting the Superintendent's charges for examining companies to actual expenses, and providing a specific method of payment; a law (in 1876) requiring the companies to give thirty days' notice of premiums falling due before declaring policies lapsed; a law (in 1877) forbidding life companies to re-insure risks without the written consent of the insured, and authorizing receivers to re-insure the whole or any part of the risks of insolvent companies; a law (in 1879) regulating and expediting the winding up of insolvent companies; and a non-forfeiture law (in the same year) which was somewhat less liberal in its provisions than the terms which were freely granted under the policies of most companies. The value of these measures of relief will be apparent when I say that a failure involving a very heavy loss to policy-holders occurred in 1883, several years after the last law mentioned was enacted.

Other important legislation of the period was the reciprocal valuation law (1873); the law (1873) allowing a life company to purchase its own policies issued in favor of a wife with reversion to children; the law (1879) allowing such policies to be assigned; and the Massachusetts law (1880) requiring the companies to pay a cash surrender value if requested at the end of any year after the first.

The loss, to solvent companies, of business as well as of *prestige*, during this period, was very great. In 1870 the income of the companies doing business in New York was \$105,000,000, in 1879 it was \$76,000,000; in 1870 the new business was \$588,000,000, in 1879 it was \$168,000,000; in 1870 the risks in force were \$2,024,000,000, in 1879 they were \$1,440,000,000. Notwithstanding the removal of so many competitors from the field, the business of the thirty-one solvent companies was less in 1879 than that of the same companies in 1870; their income was two millions less, their risks in force were seventy millions less, and their new business had fallen off over one-half. The total new paid-for business of all the compa-

nies in 1879 was nearly thirty-eight million dollars less than has since been written in one year by a single company.

Yet all these losses and failures are but a part—and a small part at that—of the loss and failure which overtook the business interests of the country generally during the same period. The financial panic of 1873 marked the culmination of the over-trading, over-building and over-capitalization which resulted naturally from the inflation of the currency during the Civil War. Life Insurance had grown more rapidly than any other business of equal magnitude; its failures and losses were proportionally much less. At the end of 1873 the entire capital account of the railroads of the country was about thirty-eight hundred million dollars, and during the next six years roads representing nearly one thousand millions were sold under foreclosure or went into receivers' hands. The assets held by failing life companies amounted to about one-ninth of the total; the assets of defaulting railroad companies represented over one-quarter of the total. About one-fourth of all the savings banks in New York went out of

existence during the six years following 1871, with losses amounting to about four and one-half million dollars. The Superintendent of the Banking Department, commenting on these failures, said, if the funds of all savings banks in the State had been invested in United States bonds in 1871, the shrinkage would have been seven million dollars; if in the best railroad securities, it would have been over thirty millions; if in the best bank stocks, thirty-five millions; and if in real estate, from forty to fifty millions.

It has been the custom of writers who would exalt Life Insurance to give scant space to the discussion of the failures and losses of this period; but to my mind there is no period in Life Insurance history that deserves more careful study, and none that contains more valuable lessons to the life insurance manager. Why did these companies fail? A true and complete answer to that question would put every officer and every trustee of a life company on his guard against like causes and a like catastrophe. As we have already seen, these failures were contemporaneous with many other

failures in the business world, and something must unquestionably be allowed for the great shrinkage in values, as measured by the currency of the country, between 1864 and 1879. But the companies that survived and increased in strength were obliged to meet the same conditions,—how did they escape? A study of the reports of this period shows but very little charged off to profit and loss by the failing companies; but a study of their condition at the time of failure shows a great gulf between actual and assumed values of assets. In many of these companies gross frauds had been practiced for years, and a thorough examination would have exposed them. In others, loans had been made on insufficient security and with evident profit to favored individuals. In some cases loans upon which neither interest nor taxes had been paid for years were carried on the books at their full face value. Such assets, under the inexorable rules of a receivership, melted away like snow beneath a summer sun. Six of the largest failing companies having their domiciles in New York State made the following showing:

Real estate owned and bonds and mortgages on real estate, at the companies' last reports, \$14,160,057; amount realized from same by receivers, \$4,449,984,—or about thirty-one and one-half per cent. All other assets, by companies' last reports, \$4,538,196; amount realized by receivers, \$2,232,424,—a little over forty-nine per cent. During the continuance of these receiverships there was received, in addition to the foregoing, as interest and rents on all property, \$676,030, and \$908,302 was paid out as real estate expenses. Other expenses of these receiverships were \$1,678,172, or a little over twenty-two per cent. of total receipts.

But what brought these companies so near the "ragged edge" of insolvency, according to their own statements and valuations, that their true condition could no longer be concealed? For an answer to this question I have tabulated the most important items of income and expenditure of the largest of these companies, as they appear in the New York reports, from 1864 until the companies ceased doing business in the State. The examination

covers seven New York companies with an average of over twelve years of business, and seven other-state companies with an average of over six years of business. These fourteen companies absorbed by re-insurance previous to their demise fourteen other companies, and together they represent the bulk of the failures, as regards amount of business and losses incurred, that have taken place among American life insurance companies. As a standard of comparison I have taken the record for ten years, 1865 to 1874, both inclusive, of the twenty-six companies which were in existence during the period, 1864-1879, and which are still solvent and active. The following is a summary of the results: (1) The *Interest Rate* of the failing companies was nearly one per cent. (.86) less than that of the solvent companies; (2) *Expenses of Management* in the failing companies were nearly seven per cent. more of premium receipts, or about four and one-half dollars more per thousand of insurance in force, than in the solvent companies; (3) *Death-Claims Paid* were nearly three per cent. more of premium receipts, or nearly three

dollars per thousand of insurance, higher in the failing companies than in the solvent companies. The higher rate of interest earned by the solvent companies would have given the failing companies nearly four million dollars more in interest receipts; the lower rate of expenses of management of the solvent companies would have saved the failing companies between twelve and sixteen million dollars; * and the lower death-claim ratio of the solvent companies would have saved the failing companies between four and ten million dollars.*

During the period covered by this review the failing companies paid nearly nineteen million dollars in dividends to policy-holders, but the ratios, both to premiums and to insurance carried one year, were but little more than one-half as large as in the solvent companies. The results attained by considering the question from opposite sides corroborate each other; for example, the additional amount needed by the failing companies to pay as large dividends as were paid by the solvent companies would have been (according as the ratio to insurance

* According as it is calculated on premiums or insurance.

or to premiums is used) from fifteen to twenty million dollars; while the saving to the failing companies by ratios of interest, expenses and death-claims as favorable as those of the solvent companies, would have been from twenty to twenty-nine million dollars. With the same rates of interest, expenses and death-claims as the solvent companies, the failing companies might have paid the same rate of dividends and added from five to nine millions to surplus; the solvent companies, with almost exactly three times as much business, in the period under review, actually added over sixteen millions to surplus.

ITEMS COMPARED.	Fourteen Failing Companies.	Twenty-six Solvent Companies.
Premiums Received	\$181,311,456	\$542,433,216
Interest Received	23,115,330	107,527,706
Expenses and Taxes	42,047,901	89,365,506
Death-Claims Paid	45,684,998	122,526,057
Dividends Paid	18,877,145	116,003,445
Assets at Interest One Year.	436,145,764	1,747,045,422
Insurance Carried One Year.	3,469,945,312	11,706,789,279
Average Interest Rate	5.30 per cent.	6.16 per cent.
Expenses to Premiums	23.19 per cent.	16.47 per cent.
Expenses per \$1,000 Ins.	\$12.12	\$7.63
Death-Claims to Premiums ..	25.20 per cent.	22.59 per cent.
Death-Claims per \$1,000 Ins.	\$13.17	\$10.47
Dividends to Premiums	10.41 per cent.	21.38 per cent.
Dividends per \$1,000 Ins.	\$5.44	\$9.91
Expenses and Death-Claims to Premiums	48.39 per cent.	39.06 per cent.
Expenses and Death-Claims per \$1,000 Insurance....	\$25.29	\$18.10

It seems clear from this review that these failures resulted from bad management, in the broadest sense of the term. It was extravagant, wasteful, dishonest. It paid too much for services rendered; it did not take proper care of the results obtained. The data upon which it proceeded were not deceptive; no company failed because of an excessive death-rate, nor (save in a single case) because it was impossible to realize a rate of interest equal to that upon which its premiums were cast.* The assumption which failed was that the loading on the net premiums would equal expenses and losses on investments. Some of the smaller companies were indeed honestly-managed, and re-insured while solvent; their mistake was in re-insuring in badly managed companies. There were others which might have been saved by more judicious handling on the part of officers of the law; their mistake was in approaching so near the "dead-line" that officers of the law could drag them over it. In no other business is failure so disastrous as in Life

*The Universal, which assumed six per cent. interest in calculating its premiums.

Insurance; in no other is it so unnecessary; in no other is it, therefore, so inexcusable. It is of no use to lay the blame of failure upon the law that makes a net valuation the test of solvency, because this law existed before most of these companies began business. That was one of the conditions of their life, to be prepared for and conformed to, as much as any other condition. As it is the province of history to teach us how we may avoid the mistakes of our predecessors, I venture to suggest the following as some of the safeguards suggested by this study:

1. The utmost care in making investments —security to be always the paramount consideration.
2. The necessity of frequent revaluations of securities, and of their rigid adjustment to changing conditions.
3. The close study of a company's business upon the principles of the "Gain and Loss Exhibit" now required by several Insurance Departments.
4. The assumption, for purposes of practical administration, of a higher standard of reserve

than that by which the company's solvency is tested under the law.

The first of these suggestions may reduce the rate of interest, but it will save the principal; the second will prevent any serious reduction of assets by insurance officials; the third will locate the fault of administration, if there be one; and the fourth will preserve a strip of neutral ground between the path the company has marked out for itself and the line to which it cannot come near with safety.

In 1879 the epidemic of failures which had set in nine years before had run its course; the patients were nearly all dead, and the business of the remaining companies began to improve. In 1879 the new insurance showed an increase from its lowest point; in 1880 insurance in force showed an increase from its lowest point; and in 1881 the total income showed an increase from its lowest point. No one but those who were familiar with the business in those troubled years can realize how hard the struggle was, nor how much effort was required to regain lost ground. We talk lugubriously sometimes of the difficulties of getting business in these latter

days, because of the fierce competition—which means, practically, that the difficulties are of our own creating—; in the years which we are reviewing, the whole outside world seemed in arms against the life insurance manager. Not until 1886 was the insurance in force of companies doing business in New York as great as in 1872; not until 1887 was the total income as large as in 1873; and not until 1888 was the new insurance as much as in 1869. It took from fourteen to nineteen years to repair the losses which life insurance suffered by reason of commercial depression and internal mismanagement.

RISE OF ASSESSMENT SOCIETIES.

Another result of these same causes was that multitudes of men who felt the need of life insurance protection, sought a substitute for it in co-operative and fraternal societies. I am aware that there is well-founded objection to calling the operations of these societies insurance, and it will be stoutly maintained by some that there is but one system of real life insurance; nevertheless there may be many

systems of *post-mortem* relief, and it is hardly worth while to quarrel about the name so long as we apprehend the fact. There is no question but that many co-operative and fraternal societies operating between 1870 and 1880, in spite of their imperfect system and because of honest management, furnished better protection to their patrons than the level-premium companies whose demise we have been considering—although the latter were organized upon plans that were unassailable, ran their course of wickedness under the ægis of the law, and died in the odor (a very bad odor, to be sure) of regularity. While the business of the level-premium companies that failed was but a small percentage of the whole, and there were always sound and well-managed companies in the field, yet the losses were nevertheless great and wide-spread, and it was little comfort to one who had lost the accumulations of years to be told that he should have insured in a better company. A system that furnished (or even promised) present protection at low cost, and did not profess to accumulate money for future needs, appealed very strongly to

men who did not understand theories of insurance, but who were angry and sore at heart over losses under a system that professed to be perfect.

There are no official data for ascertaining the number of co-operative and fraternal societies organized in the seventies; but there are now twenty of each class doing business in New York State, which were organized prior to 1880. The first Handbook of Assessment Insurance was published in 1886* and contained the statistics of 367 societies, 119 of which were organized prior to 1880. Reports were first required from such societies by the Pennsylvania Department in 1874, and by the Massachusetts and New York Departments in 1882. These societies have undertaken to supply *post-mortem* relief by levying its cost upon members in a variety of ways. There have been four plans of assessment insurance, all of which are still in use, but which may be stated in the order of their development and of their approach to the level-premium plan, as follows: (1) To

* By the Spectator Company, New York.

assess all members alike, for current cost only; (2) to assess, for current cost only, according to a table graduated for age at entrance; (3) to assess according to a table graduated for age at entrance, and lay aside an arbitrary sum or proportion of assessments for a reserve fund; (4) to charge a level premium, calculated upon assumptions which give rates approximating those of level-premium companies, lay aside a reserve fund on the same assumptions, and reserve the right to assess for any deficiency. The order in which these plans have arisen, as well as their nature and the actual workings of each, clearly demonstrate that if an organization would do what the level-premium companies guarantee to do, it must do it in their way, and that methods which require less from members provide less for members, and are likely to miss the one great end of all insurance—namely, the certainty of indemnity when the loss occurs.

The operations of these societies have been attended with a large degree of success—if we measure success by the number of persons who have joined them and by the

aggregate amount paid in *post-mortem* benefits. If, on the other hand, we regard their claim to supply real life insurance at a much lower price than that charged by the level-premium companies, then we must consider them to have totally failed of their purpose. Of course, bad management has been a fruitful source of evil here, as well as in level-premium insurance. The ease with which such societies could be organized, and their comparative freedom from official oversight until within a few years, led at one time to a speculative craze in policies upon the lives of aged and invalid persons in Pennsylvania, and fraternal endowment societies have filched from the people of many States amounts which rival the losses of the failing level-premium companies.* It must be observed also that the experience of these societies has not justified their philippics against the expense rate of the level-premium companies. The expense rate of the level-premium companies doing business in New York State in 1897 was less than twenty-three per cent. of income, while in the co-operative

* Massachusetts Insurance Report, 1893, pages x-xvi.

societies it was over twenty-eight per cent. of income, and in the fraternals—if we allow four dollars per year for lodge dues—the rate was over twenty per cent. of income.

The effect of the operations of these societies upon the business of level-premium companies must be largely a matter of guess-work. My own view is that it has been, in the main, beneficial. They have taught people the cost of temporary protection and the value of permanent insurance. As these societies usually provide for no other than *post-mortem* benefits, it is clearly seen that to furnish such benefits from year to year costs a considerable sum, even when the member survives, hence it is usually easy for the level-premium company to show that, if the insured is willing to pay a reasonable price for such indemnity in case of death during a selected period, the company will return to him, if he survives the period, all his overpayments, with interest. The men who join these societies may be divided into two classes—first, men who would not or could not, for the time being, take level-premium insurance ; and second, men who join

the society for term insurance and for social purposes. There is a constant influx of members from the societies to the companies, while the number of those going in the opposite direction is, I apprehend, very small indeed. There are now seventy-eight co-operatives and fifty-five fraternals doing business in the State of New York; these societies are the largest in the country, and do the bulk of this class of business, yet their total income is surpassed by that of a single old-line company.*

II.—1881-1897.

The period from 1881 to the present time has been one of uninterrupted progress. There has been but one failure of importance, and the business has steadily grown in public favor. While it required fourteen years to regain the volume of insurance and income reached in 1872 and 1873, it only required seven years more to double it. This time the increase came under healthful financial conditions; it came to companies which had been

* The Mutual Life.

tried as by fire; and it came to stay. The notable features of this period have been a decline in the interest rate, the rise of industrial insurance, the liberalizing of the policy contract, and an increase in the expense rate.

DECLINE IN INTEREST RATE.

During the First Convention of Insurance Officials, a committee headed by Mr. D. P. Fackler reported that in 1870 the companies doing business in Massachusetts earned over six per cent. interest on average gross assets. Ex-Superintendent William Barnes submitted a voluminous paper on the rate of interest to be assumed in computing a life company's liabilities, in which he said:

“It is entirely clear that a governmental standard for valuations will be even more than safe, if the rate of interest assumed is not in excess of that which can be realized by investments in the public funds. An hundred million dollars can now be so invested at par, in a moment, with five per cent. interest payable quarterly and free from national, state or municipal taxation. Beyond reasonable ques-

tion, investments can be made in the United States public funds, for an indefinite period of time, in such a manner as to realize four and one-half per cent. interest, compounded annually."

Other eminent authorities* gave it as their opinion that six per cent. interest would be obtainable on first-class securities for a generation to come. Yet six years later United States four per cent. bonds were selling at par. The legal rate of interest in the State of New York was reduced from seven to six per cent. in 1879, taking effect on January 1, 1880. In 1884 the Legislature enacted that on and after December 31, 1887, the official valuation of life policies should be made upon the Actuaries' Table of Mortality with interest at four per cent., instead of upon the American Table with interest at four and one-half per cent. Most of the other States wherein the latter standard obtained have made the same change. Although this change required about thirty million dollars to be added to the re-

* David A. Wells, Sheppard Homans, Elizur Wright, David Parks Fackler and C. F. McCay. See Report First Session, pp. 163, 167, 168, 170, and Second Session, p. 88.

serve funds of companies doing business in the State, it did not prove greatly burdensome to the companies, most of which had previously maintained a reserve by the higher standard in order to comply with the requirements of States wherein such higher standard prevailed. The average rate of interest received by the companies doing business in New York from 1871 to 1897 shows a decrease of about one and one-half per cent.*

It would not be a fair inference from the foregoing that the decrease in the interest rate will be as great during the next twenty-seven years as it has been during the twenty-seven just past, because by that rule the rate would in the course of time reach the vanishing point; but we cannot fail to note that, if the interest rate realizable on Government securities be taken as a standard, a three per cent. standard in 1898 would be less conservative than a four and one-half per cent. standard was in 1871. While I would not urge any change in the legal standard at present, I would suggest that it will be

*See table, page 71.

the part of wisdom on the part of life insurance companies to make gradual provision for such a change. Conservatism in the matter of interest assumptions has been of incalculable value to American Life Insurance. The early companies were obliged to rely upon English experience for mortality rates, and in calculating their premium rates they adopted the English standards as to interest rates also. This gave a premium from which it has always been possible to make a reserve at the highest standard adopted by any State. In the Convention of 1871 a strenuous effort was made by two stock companies, which calculated their premiums on a six per cent. interest rate, to create an opinion favorable to allowing them to make their reserves on the same interest basis. One of these companies was the Universal, which failed five years later, having received an average of only five and three-quarters per cent. during its whole history; the other was the National of U. S. A., still solvent, but now winding up its affairs. If the early interest assumptions had not been very much below the rate

obtainable, it is easy to see that all the early companies might have been seriously embarrassed, instead of being—as they always have been—the very bulwarks of the business.

RISE OF INDUSTRIAL INSURANCE.

Industrial insurance, although in operation in England since 1854, was first introduced into this country in 1873. In 1880 three companies were issuing this form of indemnity, and the amount in force at the end of the year was somewhat over \$13,000,000. On December 31, 1897, the number of policies in force was nearly eight millions, insuring nearly one thousand million dollars. The amount insured under industrial policies now exceeds the total life insurance in force in this country prior to 1867. Its salient features have been (1) weekly collections of premiums at the homes of the insured; (2) the insurance of the whole family; (3) uniform rates for males and females; (4) limitation of the amount of insurance upon lives under ten years of age to burial fund proportions. Premiums are five cents per week

and upward, insurance \$15 and upward. The average premium is about ten cents per week, and the average insurance about \$125.

Fortunately for the business and for the insured, the industrial business has been done by a few companies, and those doing the bulk of it have been managed with the highest integrity and skill. They have sought to furnish insurance that should be, first of all, safe, and then to make every device for lowering its cost inure to the benefit of policy-holders. The industrial companies have had to overcome anew the prejudice which was formerly directed against the companies insuring for larger amounts. Professional philanthropists have again and again conjured up the spectre of children starved and murdered for the sake of an insurance that would scarcely afford decent burial. Over against the spectre, the industrial companies have once and again set the facts, showing care in the selection of risks and in the payment of claims, and the further fact that the mortality among insured infants is lower than the average infantile mortality. Over against accusations of placing burdens

upon poverty, the companies have shown that an increase in industrial insurance has gone hand in hand with an increase in savings bank deposits.

As bearing upon the history of Life Insurance, several points must be noted :

1. The industrial companies have immensely broadened the field of Life Insurance. They have not only extended its benefits to a large number of persons insuring for small amounts, but they have included classes heretofore considered uninsurable. They have demonstrated that it is possible to ascertain and cover by an adequate premium the risk of death upon practically every healthy human being who is not living in flagrant violation of moral and hygienic laws. The companies have been obliged to contend with a death-rate among adults over twice as great as that which has prevailed among the companies doing an ordinary life insurance business, and to ascertain by actual experience the death-rate among children ; but they have within comparatively few years obtained the facts, and reduced them to a science, upon which they have upreared the

stately structure of Industrial Insurance. The number of industrial policies now in force is over three and one-half times as great as the number of ordinary policies; and, while the amounts are small, who shall say that the service done each family is not as great in the one case as in the other? The poor of to-day are often the well-to-do of to-morrow, especially if they observe the rules of industry, economy and forethought which industrial insurance is so well adapted to teach. Having constantly before their eyes the benefits of insurance in small amounts, they will not fail to see the advantage of larger amounts when they are able to carry them.

2. Again, the industrial companies have shown that it is worth while to do small things in order to accomplish great things—that the business will bear whatever expense is necessary to do it in the best way. The companies have learned that the industrial classes will not save money and pay for insurance by quarterly or monthly premiums; that they will not take insurance that involves remittances by mail or by periodical payments at an office;

but that they will cheerfully pay the cost of it if it is brought to their homes and sold on weekly instalments. In their personal attention to policy-holders, in their management of details, and in their efforts to cheapen the cost of insurance to their patrons, the industrial companies have shown a wisdom, a zeal, an invention and a singleness of purpose, that may well excite the admiration of their co-laborers in the life insurance field. The conditions of success seemed hard, but by accepting them cheerfully and paying the price ungrudgingly, these companies have earned a success which is conspicuous in the annals of Life Insurance.

3. If we look closely we shall perceive that industrial insurance—so far as it applies to infants—has introduced a new principle. Every other kind of insurance is indemnity for value lost; infantile insurance is indemnity for expense incurred. The infant life has no pecuniary value; it does not produce—it consumes; but, if it ceases, an expense must be incurred for its burial. The expense of its maintenance, if it lives, can be provided for by the earnings

of parents, because this expense—like these earnings—will be so distributed as to require but little outlay each week; and so the expense, involving the instant outlay of a week's wages or more, can be met in the same way by industrial insurance. It is not exactly insurance upon life, but, in the language of the charters and of the law, “insurance pertaining to life.” To my mind, a new dignity is added to Life Insurance when it proclaims over the cradle the sacredness of human affection, and prepares to assuage the grief of the bereaved by the assurance of Christian burial.

CHANGES IN THE POLICY CONTRACT.

This period has been pre-eminently an era of changes in the policy contract. Not only have many new policy forms been introduced, but all the old forms have been made more specific and more liberal with respect to the rights of policy-holders. The old rivalry between companies as to the amount of the annual dividend—which was always contingent—has given way to a rivalry as to benefits which may be guaranteed in the policy. The

system of annual dividends has been superseded to a very large extent by long-dividend periods, with the options of continued insurance, or cash value at the end of the first dividend period. The option of cash value is also made available under many policies at the end of other periods. This change had its origin, as we have seen, as far back as 1869, and it received a new impetus when the first 10-year dividend policies began to mature. In 1880 Massachusetts enacted the first cash surrender value law, and the practice of guaranteeing cash surrender values at definite periods was soon after adopted by most companies, even though annual dividends were continued. All companies now guarantee cash surrender values. The companies which first adopted the Tontine system restored the non-forfeiture clause, and have been among the foremost in liberalizing the contract.

Other new features introduced have had for their chief ends: (1) to relieve the policy-holder from vexatious restrictions; (2) to assist him in keeping the policy in force; and (3) to provide for its certain and prompt payment

at maturity. The restrictions removed have been chiefly those relating to occupation, to residence and travel, and to the personal habits of the insured. The usages of forty-two companies now doing business in the United States may be summarized as follows:

Residence and Travel. The policies of sixteen companies contain no restrictions upon residence and travel; six companies impose restrictions during the first policy year only; seventeen companies impose restrictions during the first two years of the policy; one company imposes restrictions during the first three years of the policy; and two companies make restrictions continuous.

Occupation. The policies of ten companies impose no restrictions upon occupation; six companies impose restrictions during the first year of the policy; twenty companies impose restrictions during the first two years of the policy; one company imposes restrictions during the first three years of the policy; and five companies make restrictions continuous.

Military and Naval Service. The policies of nine companies contain no restrictions upon

military or naval service; six companies impose restrictions during the first two years of the policy; twenty-seven companies impose restrictions during the continuance of the policy. Among the latter class there is a considerable diversity in the treatment of this risk. The terms actually accorded to policy-holders in the military and naval service of the United States during the present war, while showing equally great diversity, have usually been more liberal than those provided under the companies' contracts.

Intoxicants and Narcotics. The policies of seven companies become void, or may be canceled during a limited period, in case of the excessive use of intoxicants or narcotics. In some cases the reserve, or the premiums paid, are returned. Seven companies require the applicant to warrant that he is temperate. The policies of twenty-eight companies contain no restrictions on these points, although the applicant's habits are inquired into.

The changes in the policy contract designed to assist the policy-holder directly in keeping it in force are: (1) grace in the payment of

premiums; (2) the privilege of re-instatement; (3) loans on the policy; (4) automatic non-forfeiture conditions. The usage of the companies upon these points is as follows:

Days of Grace. The policies of sixteen companies provide that a grace of thirty days, or of one calendar month, shall be allowed in the payment of premiums; the policies of twenty-six companies make no concessions on this point.

Privilege of Re-instatement. The policies of fifteen companies make provision for re-instatement within periods ranging from thirty days to twelve months; the policies of twenty-seven companies contain no assurance on this point.

Loans. The policies of seven companies make provision for loans after being in force two years, those of sixteen after three years, those of five after five years; the policies of fourteen companies make no provision for loans.

Non-Forfeiture Conditions. The non-forfeiture conditions of thirty-one companies are automatic in their operation, so that an insur-

ance value once acquired under a policy cannot be lost; the policy-holder receives it in some form whether he makes request for it or not. The policies of eleven companies require some action by the insured within a limited time in order to receive the benefits of the non-forfeiture clause; the policies of twenty-seven companies allow a choice between extended, and ordinary paid-up, insurance; the policies of fifteen companies make provision for but one form of paid-up value. Of the twenty-six companies which allow extended insurance, eighteen deduct the premiums falling due under the original contract, in case of death within a limited period; eight companies make no deduction.

Incontestability. The policies of thirty-six companies contain clauses making them incontestable under certain conditions; the policies of six companies contain no such clauses. Of the thirty-six, fifteen make their policies incontestable after a certain period upon the single condition that premiums or notes given therefor, with interest, be paid as agreed. Of the fifteen, one makes its policies incontestable upon delivery, three after one year, eleven after two

years. The incontestable clauses of the remaining twenty-one companies all contain some further condition which is binding during the life of the policy; but, subject thereto, the clause is made operative by one company from date of issue, by seven companies after one year, by eleven companies after two years, and by two companies after three years.

Suicide. The policies of seven companies contain no suicide clause; the policies of eight companies do not assume the risk of death from self-destruction during the first year; those of twenty-one companies do not assume it during the first two years; those of four companies do not assume it during the first three years; and the policies of two companies never assume it unless it is proved to be involuntary or the result of insanity.

This review shows a great diversity of treatment of the various conditions of insurance and of the privileges allowed under the policy contract. The encouraging feature of it is, the liberality of all contracts as compared with those of twenty years ago, and the evident effort which the companies are making

to remove unnecessary restrictions upon the action of the policy-holder, to give him as much assistance in keeping up his policy as is deemed consistent with the highest good of all, to make sure that he shall not lose acquired values by neglect or oversight, and to give him the strongest assurance possible that no contest will be made over the final payment of his policy. As a chain is no stronger than its weakest link, so every condition and every restriction imposed upon the policy-holder between the delivery of the contract and its payment as a claim, creates a possibility of failure. It may be remote, infinitesimal, but it is there, as a menace, and as a preventive of that certainty which the policy-holder seeks in insuring. The fewer such conditions and restrictions that are allowed to remain in the policy, the fewer chances there will be of failure. The tendency already noted in the management of industrial companies has done much for the better security of policy-holders in the companies doing an ordinary business. That tendency is to give the best possible protection, taking no advantage of the policy-

holder's ignorance, neglect or misfortune, but seeking to provide against these by doing for him whatever he will not do for himself, provided only he pays the cost. This is insurance that insures, when a company takes no man's money without rendering an equivalent in protection, according to the expense incurred.

THE EXPENSE RATE.

No review of this period would be complete which failed to take note of the increased expense ratio at which the business has been transacted. In 1871 the ratio of expenses and taxes to premiums for insurance was 21.61 per cent.—the highest point it had yet reached. It then steadily declined to 17.38 per cent. in 1875—the lowest point since reached. From 1875 it increased to 30.47 per cent. in 1894—the highest point yet reached; and from that it declined to 29.28 per cent. in 1897. The Wisconsin Insurance Report of the present year shows that the expenses and taxes of all companies doing business in the State were 98 per cent. of the loading earned on premiums received. If we add to the loading the gain

on lapsed and surrendered policies, considering it as a "surrender charge" to be used in replacing retiring risks, expenses will then be 83 per cent. of the total amount available for expenses.

I have on other occasions expressed the opinion that expenses are too high, and there is no phase of the business to which I have given more careful attention than this. I may say, however, after an experience of six years as chief executive officer of a large company, that it is much easier to criticise the rate of expense than it is to say where a reduction should be made. While we have made some progress in this direction, I am compelled to admit that progress must be slow, and that the ratios of a quarter of a century ago are not likely to prevail again for many years—if ever. An examination of the expense ratio since 1871 shows that the years when it was lowest were the years when comparatively little new business was done, and when Life Insurance, as a whole, was retrograding. The question must be looked at from various standpoints in order to determine whether or not a given

ratio is too high. The business is free to all comers, and there are over fifty level premium companies doing business in the United States. They are all anxious to reduce the rate of expense, and each one has an opportunity to strengthen its appeal for business by so doing. Under such circumstances it would seem that the expense rate would tend to regulate itself under the stress of competition, here as elsewhere. There are very few things so well done that no improvements can be suggested; but, in practice, the improvements are not always possible.

Again, we may look at the question with reference to the compensation received by those who do the work. It must be remembered that it is a business requiring as great talent and skill as any of the great commercial interests of the country—banking, transportation, merchandising—and that it is concentrated in comparatively few hands. I venture to say that the number of persons who are receiving large incomes in the life insurance business is smaller in comparison with the business itself and in comparison with the responsibility in-

curred, than in either of the other callings mentioned. The salaries of all officers and Home Office employés—who are usually supposed to enjoy princely incomes—comprise less than nine per cent. of the total expenses of the life companies; while taxes, licenses and fees imposed by law in the various States are equal to nearly five per cent. of the total. Shall we say that the agents are overpaid? The great majority of life agents—like the great majority of men in every calling—have hard work to make a living. Of the 4,000 or more agents in the employ of the New-York Life Insurance Company in the United States in 1897, a large proportion of whom devoted all their time to the work, only 841 wrote over \$50,000 insurance during the year; none of the remaining 3,000 odd could have got from his commissions an income of \$1,000, and many got much less. In contrast with this, Mr. Edward Atkinson estimates the average wages of specially skilled men in the mechanical trades at over \$1,200 per year, and those of average mechanics at over \$700 per year.*

* "Industrial Progress of the Nation," page 169.

It will probably be said that the companies are too eager for new business, and that they spend too much money in order to make a favorable showing in this respect. Suppose we apply the same criticism to other great enterprises. Open your morning paper and read the expensive advertisements. These people are doing business for profit—why not save all this money? Besides this expensive publicity, wholesale merchants and manufacturers employ methods similar to those of the life companies, by maintaining agencies in many cities and employing an army of traveling salesmen. They will all tell you that these expenses are necessary in order to sell goods. The opposite method has been tried in life insurance. The Equitable, of London, pays no commissions to agents; it has been in existence one hundred and thirty-six years; and it has about \$35,000,000 of insurance in force. It issues less than four hundred policies a year. No doubt it takes good care of such as come to it; they get their insurance at a low rate; but very few people would ever enjoy the benefits of life insurance if all companies pursued such a pol-

icy. Isn't it better for the community that life insurance should be placed before every man and urged upon every man, even at the cost incurred by American companies, than that a few should receive its benefits at a low rate? The object of a life insurance company should be, first, to insure men at some rate; and, second, to make the rate as low as is consistent with safety and with the fulfillment of its reason for existence.

While I believe earnest and persistent efforts should be made to reduce the expense rate, I do not believe in a cheese-paring policy. "The laborer is worthy of his hire," and the man who labors faithfully for life insurance should be able to live by life insurance. The most inviting field for effort seems to be the prevention of lapses. The second year is the critical period, and the ratio of lapses in all companies doing any considerable volume of business is, and always will be, high at that point. Various theories have been tested by different companies, and contracts have been made without renewal commissions to the agent, and again with renewal commissions.

The results as shown by the reports to the Insurance Department indicate that the renewal commission has had little, if any, effect in reducing the lapse ratio, and companies which offer a standard form of agency contract based on a renewal commission to the agent, find their business going off the books just about as rapidly as the business of companies operating solely on a brokerage basis.

The insured stands more nearly alone when he faces his second payment. Even if the agent who wrote the application is present, and has interests to be subserved, other considerations predominate. The inevitable reaction from the work of the rebater asserts itself at this point. In my judgment, the greatest cause of abnormal and improper lapse in the second year is the deplorable and indefensible work of the "Lightning Agent" or "Executive Special"—the Arch Rebater. There are natural and unavoidable forces at work which will make the lapses of the second year higher, perhaps, than in any other year. These causes we can never entirely eliminate—they are a part of the business. We can only hope by

wise management to reduce the loss to the lowest practicable point; but the man who was tempted to take his insurance in the first instance because the agent submitted a proposition which appealed to the gambling instinct of humanity, a proposition which substantially offered to give him something for nothing, not only has no intention of paying the second premium, but he has been initiated into a vice which spreads like a contagious disease: it not only ruins him, but it contaminates and ruins his neighbor, and ultimately ruins the agent.

The second year brings a man seriously face to face with the obligations of his contract. If he was well and honestly insured in the beginning, if he paid one hundred cents on the dollar, he is mentally quite ready to go on. The demand for the second premium brings no element with which he is not already familiar, and raises no question which he does not already understand. He feels that he has had nothing in the first year for which he has not paid, and consequently he is not mentally upset when he meets the conditions of the second

year which exact the same cost for the same protection. On the other hand, when the man who received a rebate the first year is brought face to face with the serious part of his contract, which dates from the second premium, he is mentally in the condition of a gambler. He got something for nothing the first year; or perhaps, more correctly speaking, he got a great deal for a payment that was inadequate and improper, and it is human nature for him to want the same thing the second year. It is natural for him to shrink from paying the lawful price which the second year exacts, and he dodges the obligation which thereafter he cannot shirk, refusing to put more money into a contract which from that time forth puts him on a level with other men.

We cannot entirely overcome what I have called the natural conditions surrounding the payment of the second premium. Men's surroundings change. Even when there is no rebate offered, men may be overpersuaded by the influence of a stronger mind. There are men who have a proper sense of obligation toward their families only spasmodically. All

these things affect our business just at this point, and always will. We can, however, to a very large degree, control the evil work of the rebater. Legislation on this subject has done something, but we have learned from bitter experience that it cannot reach the real seat of the trouble. The one power that can effectually check the rebate evil is the Executive Head of each company doing business. If the agents of all companies understood that rebating was really prohibited, not only by law, but by the explicit direction of the Home Office of the companies they represent, and that back of that explicit direction was a fixed purpose to execute it, the evil would be largely decreased. A merely passive desire on the part of Executive Officers will accomplish very little. The determination to abate what is more than a nuisance must assume an aggressive form. The agent must understand that his superior officers will not only notice a case of rebate if it is thrust in their faces, but he must also understand that they are looking for evidence, not only against the agent of some other company, but against him, and that if evidence is found, punishment

will be swift and certain. Even this will not wholly exterminate the evil practice. Men will occasionally steal, notwithstanding the statute law and the Ten Commandments.

I hold, therefore, that agency contracts should be made on the theory that "the laborer is worthy of his hire," and that a good man is entitled to a good living. The apparently high expense rate of the first year that goes with this theory is perfectly legitimate and necessary, and in my judgment Life Insurance cannot otherwise be prosecuted with sufficient vigor to fulfill its true mission. But contracts which, to an outsider, appear to have been cunningly devised for the purpose of helping the agent to rebate, are quite a different proposition. The old style renewal contract was not devised for this purpose, but in very many ways it has practically operated to this end. There are styles of agency contracts in force to-day, the product of a later age, which convey the impression that they are intended to place in the hands of the agent exactly the tools which he needs to carry on this most nefarious trade.

Rebating and lapsing are twins, and if I may perpetrate an Irish "bull," twins born a year apart. The lapse follows the rebate, and the rebate is a direct offshoot of improper relations between the agent and his Home Office. This brings the matter directly home to those of us who hold executive positions, and raises the question as to what kind of agency contract will secure new business in the best way, and by that means reduce lapses to a normal level the second year. In attempting to answer this question, I, of course, presuppose that the Home Office is unalterably opposed to rebating, and is determined to stop it, and that it cannot be tempted by any mere volume of business into winking at *facts* which indicate its existence, nor induced to retain in its service either the large writer or the small writer if he has been clearly guilty of the rebate offense.

Assuming that such executive intention exists, the rebate evil and its twin, lapse, are not uncontrollable. Any working system which will make it to the interest of the agent to do his business honorably from the beginning will

tend to check the lapse rate. The industrial companies have found that their best way of accomplishing this is to pay a commission on the *increase* in premiums in force. This charges up all lapses to agents—so far as commissions on new premiums are concerned—and acts as a wholesome check on the writing of poor business and on the lapsing of business which ought to persist. Whatever we may think of the applicability of industrial insurance methods to insurance under large amounts, we must admit that the industrial companies have overcome difficulties that seemed insurmountable, and that their experience and their ways of solving the problems that have faced them may at least furnish useful hints to the rest of us.

In the company with which I am connected we have devised a plan for binding the agent closely and directly to the Home Office, transforming his calling into a permanent one, elevating his standard of character and of the treatment due to his clients. This plan is briefly, a system of annuities to agents, beginning after a definite period of service, fixed in

amount by the persistency of the business issued as well as its volume (in this feature embodying the essence of the industrial companies' idea as to compensation of agents), and continuing under well-defined conditions for life. The results in our experience are already marked and gratifying, and, while sufficient time has not yet lapsed to afford a complete demonstration, I am satisfied that we have taken a step in the right direction.

I have said so much by way of criticism that I am sure no one will grudge me a paragraph in praise of the benefits which Life Insurance has conferred during the past twenty-seven years. The companies have, during that time, received from policy-holders over three thousand million dollars; they have paid over one thousand millions in death-claims, and nearly as much more in endowments, annuities, dividends and surrender values. It will help us to appreciate the significance of these figures if we compare them with others which more strikingly impress the imagination. A third of a century ago a terrible civil war raged in this country for four years. The number of deaths

in the Federal armies is officially stated to have been over 350,000; the National debt at the close of the war exceeded twenty-seven hundred million dollars; and the Government has since paid in pensions over twenty-one hundred millions. The debt was so great that the Nation's ability to pay it was openly questioned, and our pension legislation has been the most liberal the world has ever seen; yet, since 1871, we have paid out for Life Insurance more than the amount of the National debt when at its highest point, and the payments of the life companies to their members have nearly equaled the disbursements of the Government on account of pensions. The Nation poured out blood and treasure like water, and laid a heavy burden upon posterity, that it might insure its own integrity and perpetuity; under Life Insurance, individuals have freely paid these vast sums that they might insure the integrity and perpetuity of their families, and that their posterity might be free. The patriot who gives his life for his country, and the man who insures his life for the protection of his family, alike link their being with the

future by unselfish devotion to present duty,
and though they perish outwardly, they still
live

“In minds made better by their presence; live
In pulses stirred to generosity,
In deeds of daring rectitude, in scorn
For miserable aims that end with self,
In thoughts sublime that pierce the night like stars,
And with their mild persistence urge man’s search
To vaster issues.”

BUSINESS OF THE LIFE COMPANIES REPORTING TO NEW YORK INSURANCE DEPARTMENT,
1871-1897.

YEAR.	New Insurance Paid-For.	Insurance Lapsed.	Insurance Surrendered.	Insurance in Force.	Premiums for Insurance.	Premiums for Annuities.	Interest and Rents Received.	Total Income.	Death-Claims Paid.	Matured Endowments.
1871	\$382,690,534	\$214,919,514	\$78,457,761	\$2,101,461,834	\$96,607,234	\$103,643	\$16,779,685	\$113,490,502	\$22,058,601	\$66,585
1872	413,328,900	180,288,427	74,978,715	96,520,575	82,108	20,793,346	117,300,029	25,195,956	76,242	
1873	392,757,472	186,716,581	86,541,535	95,815,351	184,738	22,396,413	118,396,502	26,719,926	271,986	
1874	297,505,813	179,023,161	92,796,824	1,997,236,230	89,280,988	154,008	26,297,778	115,732,714	25,225,636	
1875	256,131,663	142,905,483	79,774,666	1,922,043,146	83,393,656	394,855	24,856,573	108,645,084	24,988,966	370,956
1876	200,945,225	123,655,153	84,548,242	1,735,995,190	71,712,290	344,408	24,301,885	96,358,583	22,453,039	3,146,638
1877	152,643,135	98,800,015	89,017,554	1,556,105,323	62,672,064	261,626	23,228,454	86,162,144	20,977,922	4,906,138
1878	136,903,506	78,936,466	72,489,046	1,480,921,223	56,771,361	464,794	23,226,664	80,462,999	19,888,717	9,211,612
1879	148,802,909	54,066,929	54,257,456	1,439,961,165	52,981,028	747,927	23,972,348	77,700,403	20,730,173	8,899,136
1880	164,070,653	42,787,694	37,453,801	1,475,995,172	52,760,181	1,212,207	23,431,057	77,493,445	21,215,550	7,901,810
1881	194,076,120	41,809,149	33,046,732	1,539,848,581	54,454,141	1,925,107	23,441,265	79,820,513	22,592,863	7,878,959
1882	227,327,390	48,678,171	38,120,541	1,637,648,872	58,842,089	1,662,185	24,565,800	85,070,134	22,849,935	6,361,288
1883	268,164,109	57,236,963	36,708,240	1,763,730,015	65,136,781	2,185,338	25,240,614	92,562,763	25,208,496	7,871,418
1884	273,886,433	77,850,963	42,103,986	1,870,745,521	70,788,897	1,307,367	24,958,112	96,974,376	25,802,737	8,778,833
1885	326,815,747	79,268,220	43,882,293	2,023,517,488	77,315,869	1,197,302	27,014,693	105,527,864	29,632,304	7,635,761
1886	383,307,479	80,895,034	45,035,381	2,222,413,050	87,009,422	1,717,492	28,234,401	116,961,315	30,229,615	6,926,211
1887	449,188,591	91,400,252	48,356,157	2,474,507,120	98,675,134	1,909,028	30,073,364	130,657,526	35,077,325	6,544,403
1888	530,275,315	121,013,284	54,153,514	2,701,577,128	111,957,270	2,402,260	32,664,901	147,024,431	39,197,059	8,023,316
1889	652,949,993	138,996,777	56,897,965	3,444,677,311	130,241,061	2,921,803	35,021,835	168,184,609	42,668,526	8,880,515
1890	723,193,701	67,323,414	34,542,955,751	146,307,756	3,246,193	37,871,010	187,424,864	187,424,153	48,171,153	8,688,171
1891	750,419,332	256,821,703	69,760,365	3,861,584,383	159,710,071	2,914,373	39,306,981	201,931,425	52,436,543	8,306,719
1892	772,903,071	261,764,011	92,663,678	4,199,444,397	178,030,226	2,577,930	42,416,842	223,024,998	62,735,436	7,744,002
1893	836,257,708	290,939,614	111,351,382	4,511,036,550	190,731,873	43,976,367	236,683,206	65,407,645	8,245,655	
1894	751,193,495	334,048,737	136,091,827	4,657,583,046	202,547,590	2,584,454	256,624,478	67,910,135	8,007,748	
1895	768,617,750	282,768,964	135,022,326	4,838,170,945	211,621,718	3,577,584	51,697,900	266,897,202	71,925,649	10,471,236
1896	706,598,839	288,107,830	136,630,809	4,997,576,418	218,671,474	5,044,290	55,658,786	279,372,107	75,868,337	12,242,363
1897	820,861,496	274,288,306	131,457,523	5,235,725,545	233,335,546	6,058,865	61,873,768	301,268,179	77,420,537	12,290,355

Premium receipts since organization, 35 companies
Paid Policy-holders " " "

Assets December 31, 1897, since organization, 35 com-

* Valuation of policy liabilities changed from American Table with 4 1/2% interest to Actuaries' Table with 4% interest.
 † Four years only. ‡ Admitted Assets less Deferred and Unearned Premiums and Accrued Liabilities.

RECEIPTS AND DISBURSEMENTS OF ALL LIFE COMPANIES
DOING BUSINESS IN THE UNITED STATES, DURING
THE 27 YEARS, 1871-1897.

Insurance Premiums	\$3,139,293,003
Annuity Premiums.....	49,155,951
Interest and Rents	879,830,767
 Total Income.....	 \$4,068,279,721
 Death-Claims Paid.....	 \$1,051,006,646
Endowments	84,951,640
Annuities	29,524,064
Surrender Values	426,250,525
Dividends.....	413,857,241
 Total to Policy-holders.....	 \$2,005,590,116
 Expenses and Taxes	 \$828,302,848
77 companies—Assets January 1, 1871.....	\$272,129,969
77 companies—Surplus January 1, 1871.....	\$49,214,206
56 companies—Assets January 1, 1898	\$1,344,589,632
56 companies—Surplus January 1, 1898.....	\$187,794,037
77 companies—Insurance in Force January 1, 1871 ..	\$2,046,254,488
56 companies—Insurance in Force January 1, 1898 ..	\$5,328,072,646
 Industrial Insurance in Force January 1, 1898.....	 \$987,110,692







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